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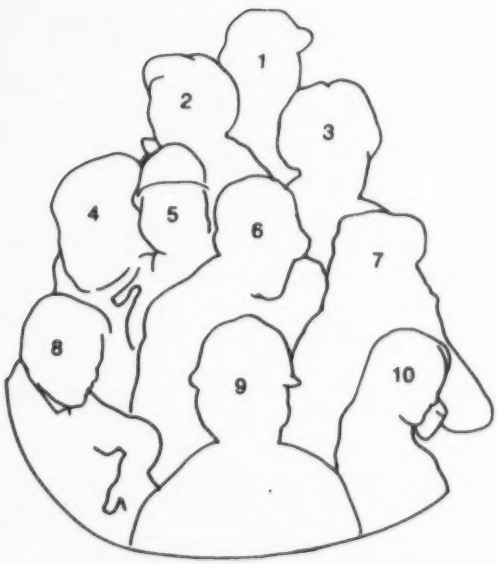

OUR COVER:
1. Max MacLean; 2. Roy Brazil; 3. Lillian Parsons; 4. Kathy Sweetland; 5. Edward Blake; 6. Garland Jennings; 7. Wendy Follett; 8. Doug Whelan; 9. Michel Dancoisne; 10. Mary McDonald.

The Newfoundland and Labrador Hydro Act requires the Board of Directors to submit to the Minister an Annual Report containing Financial Statements setting forth the assets and liabilities of the Corporation and giving an account of the activities of the Corporation, setting forth such other matters as may appear to it to be of public interest in relation to the affairs or activities of the Corporation. It is a further requirement of the Act that the Annual Report be presented to the Provincial Legislature.

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HYDRO

CORPORATE PROFILE

Newfoundland and Labrador Hydro (Hydro) is a Provincially owned electrical utility whose objective is the generation and transmission of electricity in the Province in the most economic and efficient manner possible. The Hydro Group is the fourth largest electric utility in Canada, in terms of installed capacity (6,851,000 kilowatts) and it operates one of the largest power facilities in the world through its subsidiary, Churchill Falls (Labrador) Corporation Limited, (CF(L)Co).

Virtually all of the power generated by the 5,225,000 kilowatt plant located at Churchill Falls, Labrador, is sold under long-term contract to Hydro-Quebec. Hydro's ownership in CF(L)Co is 65.8% while Hydro-Quebec owns the remaining 34.2%.

On the Island, Hydro owns and operates hydroelectric plants at Bay D'Espoir (600,000 kilowatts), Hinds Lake (75,000 kilowatts), Godaleich (84,000 kilowatts) and Cat Arm (127,000 kilowatts). In addition, it operates an oil-fired generating station (450,000 kilowatts) at Holyrood near St. John's, and three gas turbines (110,000 kilowatts).

Hydro is also the parent company of the Lower Churchill Development Corporation (LCDC) with 51% ownership, in partnership with the Government of Canada, which has 49% ownership. LCDC has a mandate to develop the power potential on the Lower Churchill River in Labrador at two separate sites, Gull Island (1,700,000 kilowatts) and Muskrat Falls (600,000 kilowatts).

The Hydro Group owns approximately 4,000 kilometres of transmission lines in Newfoundland and Labrador. In Labrador, the Group provides electricity to major centers through the recall of power from the Churchill Falls plant and to the smaller coastal areas through the operation of separate diesel systems.

Hydro generates most of the power on the Island of Newfoundland and supplies it directly to industry; to rural customers through the Power Distribution District of Newfoundland and Labrador (PDD), an affiliate company, and to major domestic load growth centers through an investor-owned retailer of power, Newfoundland Light & Power Company Limited.

HYDRO

CORPORATE HIGHLIGHTS

- A solid performance with new production records was achieved by the 1,197 people who make up the workforce of the Newfoundland and Labrador Hydro Group.

- Record production of 3.1 billion kilowatthours from the Bay D'Espoir generating plant and a record year of production, 647.3 million kilowatthours, from the Godaleich plant.

- Improved production from the Churchill Falls generating station, up 15% from 1983 to 39 billion kilowatthours.

- Completion of construction of the 127,000 kilowatt Cat Arm hydroelectric generating plant. The plant is scheduled to start producing energy for the Island grid in the Summer of 1985.

- One million employee hours without a lost time accident at Bay D'Espoir and 500,000 employee hours without a lost time accident at Whitbourne.

- Completion of research which proved the feasibility of laying Submarine Cables under the Strait of Belle Isle using an underwater plow which will significantly reduce the cost of bringing Labrador power to the Island of Newfoundland.

HYDRO

THE MEASURE OF OUR SUCCESS

RECORD PRODUCTION

Once again, this year Newfoundland and Labrador Hydro set new production records. Total production increased by 5.1% over the previous record set in 1983 to reach 5 billion kilowatthours. Of this total, almost 4.1 billion kilowatthours represented hydroelectric production from our plants at Bay D'Espoir (3 billion kilowatthours), Hinds Lake (369 million kilowatthours) and Godaleich (647 million kilowatthours). The remainder was produced at our Holyrood oil-fired thermal plant, from gas turbines and purchased power.

The record hydro production was 19% more than can be expected in a year of average water inflows and saved our customers $37 million that would otherwise have been burned in oil to meet their electrical needs.

At Churchill Falls, production increased by 15% over its 1983 level, to reach 39.0 billion kilowatthours but did not quite reach the record production level achieved in 1980. The past year therefore contributed positively to the eight year average for sales to Hydro-Quebec of 35.4 billion kilowatthours annually. In 1984, sales of Churchill Falls power in Labrador totalled 2.2 billion kilowatthours with domestic sales to consumers at Happy Valley-Goose Bay rising 30% above their 1983 level.

Newfoundland and Labrador Hydro also provides operational services for PDD which maintains the rural electrification program within the Province. Sales by PDD to Island interconnected customers were 210.0 million kilowatthours, up 9.3% over the 1983 level while sales to customers on the isolated diesel powered system on the Island and in Labrador were 81.8 million kilowatthours, 2.2% lower than last year. The trend toward lower diesel sales reflects the success of Hydro's program to interconnect diesel areas whenever economical.

In August of 1984, PDD initiated an efficiency program related to the operation of its manned diesel plants. The savings last year reached almost $100,000.

ACHIEVEMENT OF FINANCIAL TARGETS

Total expenses in 1984 were $241 million compared to $217 million in 1983, an increase of approximately 11%. More than 8% of this increase was the result of increased fuel costs at Holyrood.

Hydro achieved a gross interest coverage of 1.19 in 1984 compared to 1.16 in 1983 and improved its debt:equity ratio to 91:9 versus 92:8 the previous year.

These achievements are independent of the impact of the financial results of Hydro's Subsidiaries.

Hydro's net income in 1984 was $19.7 million while Hydro's share of CF(L)Co's net income was $31.2 million for a total consolidated net income of $50.9 million. The net income of CF(L)Co includes revenue of $35 million which was recorded in 1984 as the result of an eight year review provided for in the power contract with Hydro-Quebec. Of this amount $33 million, though recorded in 1984, was not received from Hydro-Quebec but will be received in equal monthly amounts during the eight year period ending August 31, 1992. The cash received from Hydro-Quebec in 1984 with respect to this transaction amounted to $1.5 million.

INVESTING FOR THE PROVINCE'S FUTURE

During 1984 Newfoundland and Labrador Hydro spent over $100 million to construct facilities to serve our Province's growing electrical requirements. More than $90 million of this investment was related to the Cat Arm Hydroelectric Development which was virtually completed by year end.

Early in the construction season unexpected water conditions overtopped a cofferdam and caused a delay in the construction of the Cat Arm dam. However, decisive field action and the diligent efforts of our work crews minimized the impact on the project's overall construction schedule. The 230 kV transmission line

from Deer Lake to Cat Arm was completed and energized by mid-November.

At year end it became clear that the Cat Arm project would be in service by the Summer of 1985 at a final capital cost which will be approximately $316 million. The project has provided 1,600 person years of work while under construction; has resulted in payroll benefits to its workers of some $60 million and will have the capacity to displace 1.1 million barrels of Bunker 'C' oil annually.

Newfoundland and Labrador Hydro also maintained its surveillance on technologies to assist our access to Labrador power — our long term objective is freeing the Island from dependence on oil-fired thermal generation. In total, approximately $1.2 million was spent by the Lower Churchill Development Corporation on an investigatory program in the Strait of Belle Isle. The investigation included the selection of three submarine cable routes and a plow test program to determine the practicality of plowing the overburden along these routes for the placement of submarine cable as part of an intertie between the Island grid and the rich hydro resources of Labrador. The program confirmed a plowable submarine route across the Strait of Belle Isle.

RESPONSIVENESS IN ADVERSITY

In April of 1984 the Eastern Avalon area of the Island was battered by a massive sleet storm. The major elements of our transmission system which link the capital city of St. John's with our thermal plant at Holyrood and the rest of our hydro generating stations to the west, were severely damaged. More than sixty high voltage transmission towers collapsed under the stress of extreme ice loading, some 250 kilometres of transmission circuits were taken out of service and the Avalon Peninsula, including the capital city, was left without energy.

By daylight on the morning following the storm, Hydro mobilized its staff to respond to the emergency. Skilled line crews were flown into the area from Churchill Falls, Stephenville and Central Newfoundland. Within forty-eight hours limited service was restored to most urban areas and within six days our system was again operational.

The response of the Hydro Group during this emergency was heralded by a grateful public.

THE ESSENCE OF HYDRO: ITS HUMAN RESOURCES

The year 1984 had special significance for the 1,197 employees who make up the Hydro Group. On June 22nd they helped the Corporation celebrate its thirtieth anniversary. Special activities were scheduled throughout the organization during the year and especially on our anniversary day, June 22nd, to facilitate remembrance and celebration of this young organization.

During the year, special emphasis was given to safety awareness and records were set in both reduced personal lost time accidents and vehicle accidents. Of particular note was the achievement by our Bay D'Espoir plant of a record 1,000,000 employee hours without a lost time accident and the passage of the 500,000 employee hour milestone at Whitbourne.

In January a new unit of the International Brotherhood of Electrical Workers was certified to represent the office and clerical personnel of CF(L)Co. Successful negotiations leading to a collective agreement were concluded before year-end. 1984 therefore marked another year of harmonious labour relations within the Hydro Group.

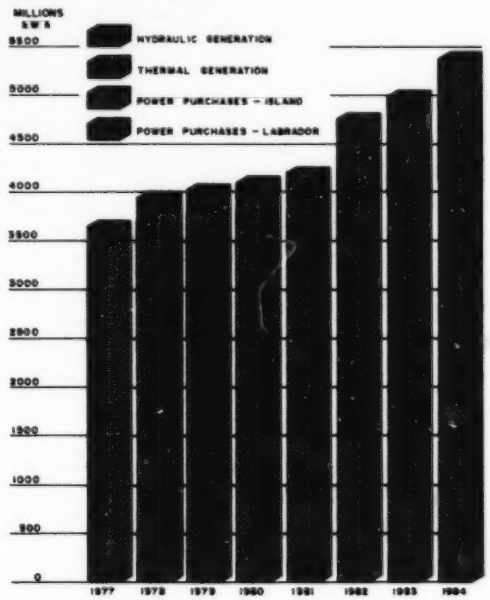
THE MEASURE OF OUR SUCCESS

The performance of the Hydro Group can be measured in a variety of ways. Some of these have been highlighted above. Each reader of this Annual Report will have his own special area of interest. It is important to remember that the one common element to all measures of our success is the dedicated and diligent performance of the many hundreds of loyal employees who contribute their time and talent to the achievement of our corporate objectives, day in and day out. Our most valued resource is our people. This Annual Report is a tribute to them and our cover depicting "The Many Faces of Hydro", salutes their achievements in 1984.

PRODUCTION — HYDRO OPERATIONS

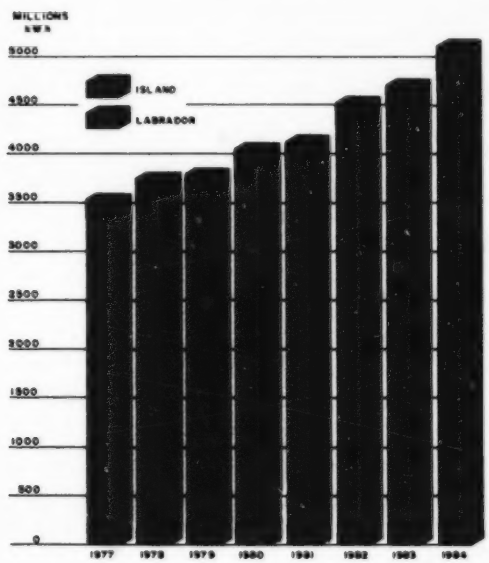
A new record production of 4.9 billion kilowatthours was set by the Corporation's facilities on the Island of Newfoundland during the year, and in addition, 99.4 million kilowatthours were purchased, primarily from the Bowater Power plant at Deer Lake, for a total electrical energy supply of 5 billion kilowatthours. This is 241.3 million kilowatthours or 5.1% higher than the previous record set in 1983.

SYSTEM GENERATION AND POWER PURCHASES
HYDRO OPERATIONS



Record hydroelectric production of 4.1 billion kilowatthours was achieved because of extremely high water inflows into our Bay D'Espoir reservoir for the first nine months of the year. The 4.1 billion kilowatthours of production was made up by 3.1 billion kilowatthours from Bay D'Espoir, 368.5 million kilowatthours from Hinds Lake, and 647.3 million kilowatthours from the Godaleich plant. This production was 19% more than can be expected in a year of average water inflows and the increase represented a saving of 1.1 million barrels of oil, or $37 million that otherwise would have had to be burnt at the Holyrood thermal plant and paid for by electrical consumers. Production from the Holyrood thermal plant and gas turbine facilities was therefore only 813.6 million kilowatthours. During the last three months of the year, very low inflows into the water reservoirs were experienced with approximately half of the year's thermal generation taking place in these three months. At the end of the year, water reservoirs were below normal necessitating high thermal production and high fuel escalation charges to consumers.

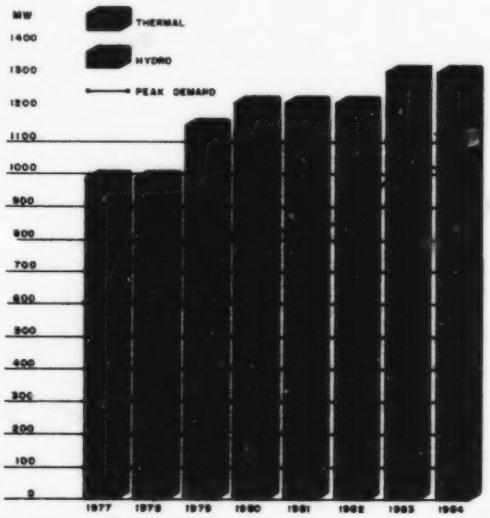
ENERGY SALES
HYDRO OPERATIONS



The system peak for the year was 1,013,000 kilowatts at 1647 hours on December 27. This peak is 27,000 kilowatts lower than last year when an unusually high coincident factor was experienced.

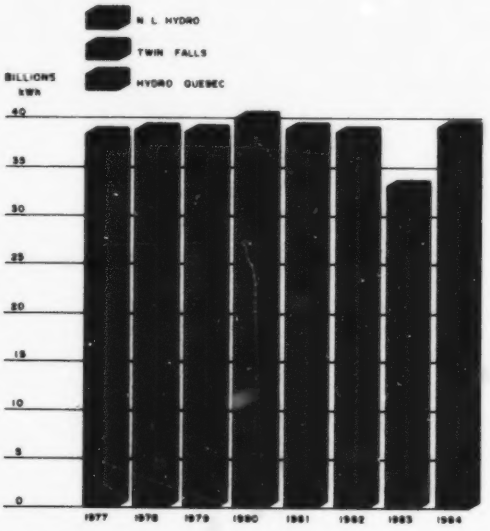
The Provincial grid on the Avalon Peninsula was hit with a sleet storm that lasted for four days starting on April 9, 1984. During that period nineteen 230 kV steel structures and forty-four 230 kV wood structures collapsed resulting in the St. John's area being isolated from the Bay D'Espoir system. Power was rationed in the area for three days while repairs were made to lines from the Holyrood thermal plant. The interconnection to the Bay D'Espoir plant was completed on April 27th and all damaged lines were repaired and back in operation by May 14th. Great credit must be given to Hydro's line crews as well as contractor line crews for working extremely long hours in very difficult conditions to restore electrical service to the area.

GENERATING CAPACITY & DEMAND
HYDRO OPERATIONS



NOTE: EXCLUDES DEMAND IN LABRADOR SUPPLIED BY PURCHASED POWER.

ANNUAL ENERGY DELIVERIES
CHURCHILL FALLS OPERATIONS



PRODUCTION — CHURCHILL FALLS OPERATIONS

Higher sales to Hydro-Quebec during 1984 resulted in increased production at the Churchill Falls generating station over the previous year. Total production of 39.0 billion kilowatthours was 15% higher than the 33.9 billion kilowatthours generated in 1983 but lower than the 40.8 billion kilowatthours recorded in 1980. For the preceding six years sales to Hydro-Quebec had averaged 35.4 billion kilowatthours annually. In 1984 sales of Churchill power within Labrador to serve industrial and domestic consumers in western Labrador

and Happy Valley-Goose Bay areas totalled 2.2 billion kilowatthours or only 6.0% of the total output of the Churchill Falls plant. Domestic sales to consumers at Happy Valley-Goose Bay at 239 million kilowatthours were 30% higher than 1983.

The total run-off from the reservoirs during 1984 at 44.8 million cubic metres was down 18% from the 1983 total. For the third consecutive year, no water spillage was recorded from the Churchill Falls reservoirs. At the start of the winter season, all reservoirs were full with the annual run-off being 96.5% of our 28 year average.

During 1984, Unit No. 6 was removed from service to replace the defective winding which had been installed in 1980. Due to installation problems experienced with the new winding, this unit was still out of service at year end. If this unit had been available and considering the favourable hydrological conditions in the reservoirs, the total generation for the year could have exceeded the earlier record set in 1980.

In August, a bushing failed in one of the single phase 735 kV transformers in the switchyard. There was an ensuing fire but the unit can be salvaged. This resulted in only a temporary reduction in power exports as a spare unit was available.

Maximum power generated at the plant again exceeded a peak of 5,500,000 kilowatts which is lower than the preceding six year average of 5,600,000 kilowatts but higher than the rated capacity of 5,225,000 kilowatts.

RURAL POWER SYSTEMS

Hydro operates PDD which maintains the rural electrification program within the Province. PDD serves rural communities either by (i) obtaining power from the main hydro power grid and distributing it to its interconnected customers, or (ii) for more remote areas, supplying electricity directly to its customers from local diesel generators.

Sales to Island interconnected customers were 210.0 million kilowatthours or a growth of 9.3% over the year of 1983 while sales to diesel customers on the Island and in Labrador were 81.8 million kilowatthours or 2.2% lower than in 1983. Sales to Labrador interconnected customers totalled 83.2 million kilowatthours, an increase of 15.9%. The growth in these sales to customers in the Happy Valley-Goose Bay and North West River communities was due primarily to the increased conversion to electric heat in these areas.

In August of 1984, PDD initiated an efficiency program for operation of the fully manned diesel plants. The saving in diesel fuel from this progrm to the end of December was $98,000.

PDD capital expenditures for 1984 were $6.1 million. Of this amount, $1.2 million was spent on generating facilities and $4.9 million on upgrading and extensions to the distribution systems to meet rising customer power demands. Revenues from PDD customers are not sufficient to meet its high operating costs and Government is required to provide an annual payment in the order of $22 million to make up the revenue shortfall.

GENERAL

Construction of the Cat Arm Hydro electric Development and conclusion of a comprehensive investigatory program in the Strait of Belle Isle were highlights of Hydro's construction activity during the year. The total capital expenditures for the year amounted to $103.4 million with the major portion associated with Cat Arm. The following is a breakdown of these expenditures:

	$ Millions
Cat Arm Hydroelectric Development	92.0
Transmission, Distribution and Terminals	4.3
Other Facilities	7.1
Total	103.4

CAT ARM COMPLETION

The climax of construction activity during the year under review was the virtual completion of the Cat Arm Hydroelectric Project. 1984 proved to be an excellent construction year and despite some problems in the early part of the construction season associated with the overtopping of a cofferdam due to a substantially higher than anticipated Spring run-off, construction was successfully completed by year end. Indeed, the contractors had completely demobilized, rehabilitation of the quarries and borrow areas was completed and the commissioning of the generating plant was well advanced.

Construction activities on the Cat Arm Project resumed in May and the diversion gate was closed on May 24th to commence the impoundment of water in the reservoir. During the early part of June, extreme wet weather and melting snows resulted in substantially high run-off conditions which eventually overtopped the Cat Arm Dam East cofferdam. This overtopping caused some minor damages, however with decisive field action, the delay in overall construction schedule was minimized.

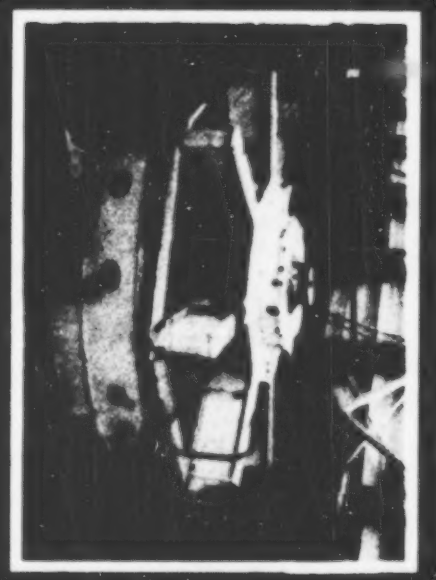
The placement of till in the dams and dykes commenced in the latter part of May and excellent progress was maintained throughout the construction season. Generally, the weather was co-operative throughout the two year construction schedule and was a major contributing factor in the timely completion of the Project.

The 230 kV transmission line from Deer Lake to the Cat Arm powerhouse was completed in the first part of October and energized on November 15th. The commissioning of the generating facilities commenced in November and the mechanical runs on both units were complete by the end of December. Commissioning is scheduled for completion in May, 1985. The reservoir Full Supply Level will not be attained until the Summer of 1985.

The overall construction schedule extended over a period of 43 months commencing in July, 1981. Basically the placement of 1.6 million m^3 of fill (earth and rock), the excavation of 800,000 m^3 of rock, the placement of 15,000 m^3 of concrete and the construction of 65 km of access road (involving the excavation and placement of 1.5 million m^3 of rock) were required to construct the Project consisting of 10 dams, 7 km of canals, 5 km of tunnel, 2 spillways, intake, powerhouse and tailrace.

The completion of the Cat Arm Project on schedule is a significant achievement for Hydro and particularly for the dedicated individuals whose total commitment to the Project made it a complete success. The harsh construction environment within which the Project was located increased the prominence and significance of its successful completion.

The Project had a favourable impact on the economy of the area. It provided for 1,600 person years of work and peaked at 800 persons and resulted in a total payroll of approximately $60 million. The overall capital cost will be approximately $316 million.



The Cat Arm Project will become operational during the Summer of 1985. It will increase the capability of the Island's generating system by 127,000 kilowatts and 700 million kilowatthours annually and will have the capability of displacing 1.1 million barrels of Bunker "C" oil each and every year.

LOWER CHURCHILL

During 1984, a comprehensive investigatory program was carried out in the Strait of Belle Isle. The investigations consisted of the selection of three submarine cable routes and a plow test program to determine the plowability of overburden along these proposed routes. The Plow Survey Program was successfully implemented during August.

The cable routes were plowed for their entire lengths with the exception of short sections at the shore ends. These specific areas (shore ends) had been previously surveyed to determine the depth of overburden. The three routes surveyed were:

Route A: Forteau Point to Yankee Point
Route B: L'Anse au Clair to Yankee Point
Route C: L'Anse au Clair to Winter Cove (St. Barbe)

The program proceeded as scheduled and the results were better than anticipated. The bottom conditions were not as inhospitable as originally envisaged and generally, the Program indicated that a plowable submarine cable route can be achieved across the Strait of Belle Isle.

During the operations, plow penetrations of 600 millimetres were generally achieved in the sea bottom overburden. This depth of burial is considered sufficient to protect submarine cables from fishing activities (trawls, etc.). A few areas of bedrock were encountered on all routes and in these specific locations, it would be necessary to cover the submarine cables with rock fill or concrete mattresses. The most southerly route selected and investigated offers a significant degree of natural protection from icebergs moving through the Straits.

The investigations during the past year have revealed that it is technically feasible to install submarine cables in overburden across the Strait of Belle Isle utilizing existing technology and at substantially reduced costs over the rock trench alternative.

The total cost of the 1984 program was $1.2 million versus a budget of $1.8 million. The total expenditures of the Lower Churchill Development Corporation, since its inception, is now in excess of $24 million. As a result of this year's program, it is generally felt that sufficient data is now available to facilitate the issuance of tender specifications covering the supply and installation of submarine cables in the sea bottom overburden across the Strait of Belle Isle.

FINANCIAL REVIEW

CONSOLIDATED FINANCIAL PERFORMANCE

NET INCOME

Hydro's net income in 1984 was $19.7 million while Hydro's share of CF(L)Co's net income was $31.2 million for a total consolidated net income of $50.9 million. The net income of CF(L)Co includes revenue of $35 million which was recorded in 1984 as the result of an eight year review provided for in the power contract with Hydro-Quebec. Of this amount $33 million, though recorded in 1984, was not received from Hydro-Quebec but will be received in equal monthly amounts during the eight year period ending August 31, 1992. The cash received from Hydro-Quebec in 1984 with respect to this transaction amounted to $1.5 million.

REVENUE

Gross revenue in 1984 reached a record level of $279.1 million, with $268.9 million coming from energy sales which increased by $32.8 million, or 13.9% over 1983.

The 1984 sales volume to utility and industrial customers increased by 7% and 4.1% respectively. Revenues from utility customers reflected the full year's effect of a rate increase implemented on August 1, 1983. Export sales revenue increased by $5.2 million or 5.8% over 1983 due to a 15.4% increase in the volume of sales.

EXPENSES

Total expenditures in 1984 amounted to $241.4 million compared to $216.6 million in 1983, an increase of 11.4%.

Energy related costs for fuel and purchased power were $51.3 million in 1984, up $15.6 million (43.7%) from 1983. This increase was primarily due to the higher prices for fuel oil and the increased volume of thermal generation in 1984.

Operations and administration costs amounted to $50.8 million in 1984, $7.5 million (17.3%) higher than 1983. This was primarily due to an increase of $3.6 million in rental and royalties payments and a $3.9 million increase in other operating and administrative costs. Net interest expense charged to operations in 1984 was $117.0 million, up $1.6 million (1.4%) from 1983.

UNUSUAL ITEM

The unusual item of $35.3 million reported on the Consolidated Statement of Income was recorded as income by CF(L)Co in 1984. It resulted from an adjustment in power sales revenue for the preceding eight year period together with interest at the rate of 7% per annum.

The Power Contract provides for an initial eight year review, and subsequent four year reviews, of the annual average Energy Payable for comparison with the Annual Energy Base then in effect. Both terms are defined in the Power Contract. When the annual average Energy Payable exceeds the Annual Energy Base (which is limited to 32.2 billion kilowatthours) an additional payment is due from Hydro-Quebec. The review determined that annual average Energy Payable during the initial period was in excess of the Annual Energy Base, thereby resulting in adjusted earnings of $10.9 million. This amount has been included in income for 1984, together with the applicable interest of $24.4 million. The total amount is recoverable in equal monthly instalments during the eight year period from September 1, 1984 to August 31, 1992.

CAPITAL EXPENDITURES

Capital expenditures in 1984 amounted to $103.4 million. The Cat Arm development continues to be the only major project under construction and is scheduled to be placed in service by mid-1985 at a total estimated capital cost of $316 million.

CF(L)Co

Hydro's income from CF(L)Co consisted of $46.2 million (1983 - $20.2 million), representing its share of CF(L)Co's earnings, plus rentals and royalties of $8.5 million (1983 - $4.9 million) less interest on the debt to finance the investment of CF(L)Co of $23.5 million (1983 - $23.0 million). This resulted in net income to Hydro in 1984 of $31.2 million (1983 - $2.1 million). During 1984 CF(L)Co paid dividends of $19.8 million to Newfoundland and Labrador Hydro and $7.8 million to Hydro-Quebec.

FINANCIAL INFORMATION
DECEMBER 31, 1984
($ millions)

	Hydro	CF(L)Co	Total
Revenue	173.9	98.8	272.7
Expenses:			
Operations & Administration	24.9	25.9	50.8
Fuels	49.4	—	49.4
Power Purchased	4.3	—	4.3
Depreciation	7.9	13.3	21.2
Interest	67.7	25.5	93.2
	154.2	64.7	218.9
Net Operating Income	19.7	34.1	53.8
Sales of Power Adjustment	—	35.3	35.3
Interest on CF(L)Co Acquisition & Other Dedicated Costs	—	(16.1)	(16.1)
Minority Interest	—	(22.1)	(22.1)
NET INCOME TO HYDRO	19.7	31.2	50.9

The above information reflects the financial results of each corporate entity and certain figures differ from the Consolidated Statement of Income due to various intercompany transactions which are eliminated in consolidation.

FINANCIAL PERFORMANCE — HYDRO OPERATIONS

Hydro's financial performance continued to improve in 1984 while still maintaining a reasonable balance of attaining financial soundness with the current economic circumstances facing consumers. The restraint program instituted by Hydro in the second half of 1982 is still in effect whereby operating and capital expenditures are kept to the minimum required without jeopardizing service being provided to our customers.

A comparison of Hydro's primary financial ratios for the past five years are:

Financial Measurements	1984	1983	1982	1981	1980
Interest Coverage	1.19	1.16	1.22	1.21	1.19
Debt Equity Ratio	91/9	92/8	93/7	94/6	95/5

Hydro's overall interest coverage from its unconsolidated operations, which include both industrial and utility sales, was 1.19 in 1984. This result is within its interest coverage objective of a range of 1.15 to 1.25 which the Public Utilities Board believes to be appropriate. Wholesale rates applicable to its utility customers were last increased during 1983 however, with the Cat Arm Project coming into service in

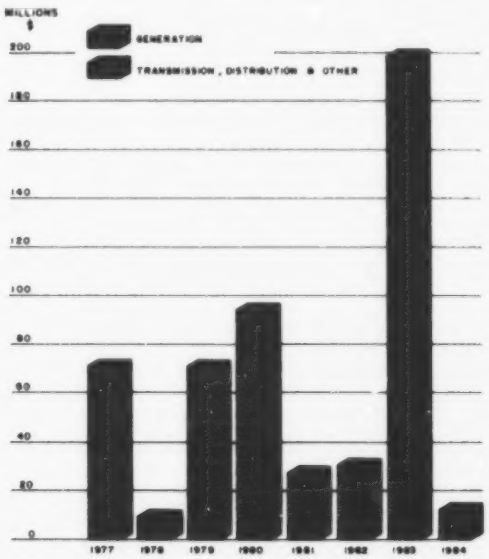
APPLICATION OF REVENUES
HYDRO OPERATIONS
1984

TOTAL REVENUES $173,897,000

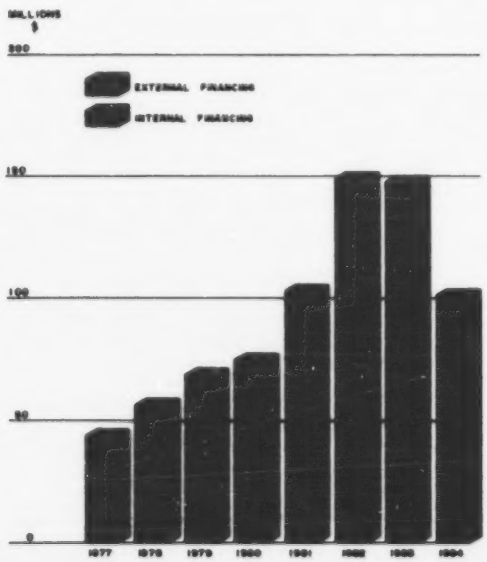
mid-1985, it will be necessary for Hydro to seek a readjustment in its rates to utility customers.

Hydro's capital program has declined in 1984 primarily due to the Cat Arm Project, the only new generation source under construction, nearing completion. During the year Hydro borrowed $35 million for 15 years in the Canadian market at a rate of 11.25% and has also raised $37.9 million in the Japanese short-term money market at a rate of 7%. At year end, $76.4 million has been raised in the Canadian short-term money market at an average rate of 10.7% with terms up to 60 days. Hydro expects to continue to use short-term borrowing for as long as it is advantageous to do so.

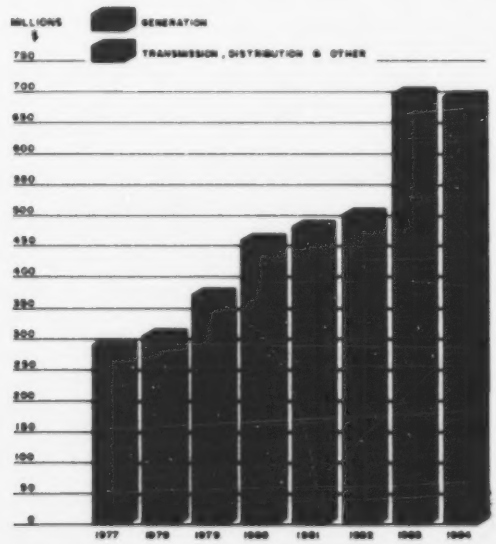
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT
HYDRO OPERATIONS



FINANCING OF CAPITAL EXPENDITURES
HYDRO OPERATIONS



NET BOOK VALUE OF ASSETS IN SERVICE
HYDRO OPERATIONS



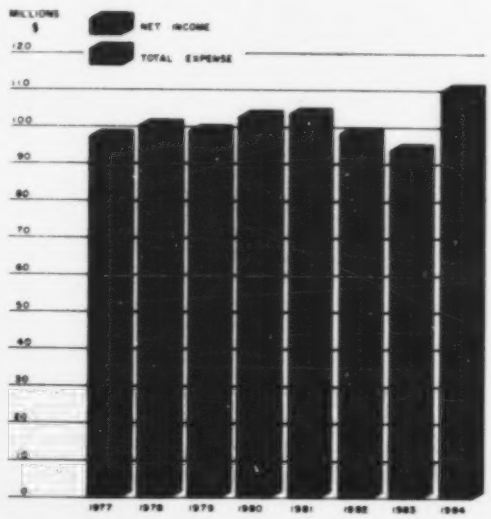
FINANCIAL PERFORMANCE — CHURCHILL FALLS OPERATIONS

Revenue from energy sales in 1984 amounted to $97.2 million and, of this amount, 96.5% represents revenue from sales to Hydro-Quebec with the remainder of the sales being made to Newfoundland and Labrador Hydro and Twin Falls Power Corporation Limited. In addition, revenue of $10.9 million with respect to energy sales for the previous eight year period was recorded. This amount results from a review of the annual average Energy Payable pursuant to Section 8.5.2 of the Power Contract between CF(L)Co and Hydro-Quebec.

Operating expenses for the year excluding rental and royalties, interest and depreciation amounted to $17.3 million compared with $16.3 million in 1983. The restraint program adopted by the Hydro Group in 1982 continued throughout 1984 and resulted in lower salary and wage costs. However, the main reason for the increase over the previous year's total relates to major repairs on stator windings and transformers.

Net interest and exchange expense in 1984 amounted to $1 million compared with $28 million in 1983. This major reduction in net interest and exchange expense results directly from the recording in 1984 of interest totalling $24.4 million which is recoverable from Hydro-Quebec as a result of the review referred to above under Section 8.5.2 of the Power Contract. This review determined that, because of the level of energy production in the preceeding eight year period in relation to the Annual Energy Base specified in the Power Contract, the value of the energy sold to Hydro-Quebec during that period is higher than that already charged to Hydro-Quebec. The resulting energy adjustment of $10.9 million referred to above bears interest at 7% per annum and it is this interest that is recoverable from Hydro-Quebec. Without this substantial interest adjustment, the net interest and exchange expense for 1984 would have amounted to $24.5 million

COMPOSITION OF TOTAL REVENUE
CHURCHILL FALLS OPERATIONS



MANAGEMENT REPORT

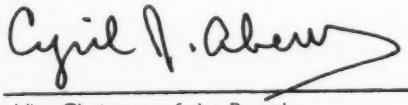
The consolidated financial statements of Newfoundland and Labrador Hydro have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied and including information available up to March 1, 1985. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management. Financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal accounting controls and procedures to provide reasonable assurance at reasonable cost that its assets are safeguarded against loss from unauthorized use or disposition and that the financial records provide a reliable basis for the preparation of financial statements and other data, as well as maintaining accountability for corporate assets.

Hydro's independent auditors provide an objective, independent review of management's discharge of their responsibilities as they relate to the fairness of reported consolidated operating results and financial conditions of Hydro in accordance with generally accepted auditing standards.

The Board of Directors pursues its responsibility for these financial statements principally through its Audit Committee,composed solely of outside directors, which meets periodically with management as well as with the internal and independent auditors who have full and free access to the Audit Committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

Management is responsible for and the Board of Directors has approved, all of the information in the Annual Report.



Vice-Chairman of the Board,
President and Chief Executive Officer

Vice-President, Finance and
Chief Financial Officer

March 1, 1985
St. John's, Newfoundland

Newfoundland and
Consolidated
(in thousands

Assets

	December 31	
	1984	1983
Fixed assets (Note 2)		
Property, plant and equipment	$1,892,860	1,814,386
Current assets		
Cash and term deposits	50,149	42,339
Receivables	54,498	42,737
Fuel and supplies at average cost	29,436	26,531
Prepaid expenses	1,345	692
	135,428	112,299
Long-term receivables (Note 3)	37,240	7,843
Investment in Twin Falls Power Corporation Limited (Note 4)	2,903	2,898
Lower Churchill option (Note 5)	5,200	5,200
Deferred charges (Note 6)	32,418	19,830
	$2,106,049	1,962,456

Labrador Hydro
Balance Sheet
of dollars)

Liabilities and Shareholder's Equity

	December 31	
	1984	1983
Long-term debt (Notes 8 and 9)	$1,474,300	1,427,652
Current liabilities		
Accounts payable and accrued liabilities	35,811	52,734
Accrued interest	30,886	30,275
Long-term debt due within one year	28,493	41,976
Promissory notes (Note 9)	76,403	22,003
	171,593	146,988
Provision for water equalization	36,000	28,864
Minority interest in Churchill Falls (Labrador) Corporation Limited	100,477	86,180
Minority interest in Lower Churchill Development Corporation Limited	14,750	14,750
Shareholder's equity		
Share capital		
Common shares of par value of $1 each. Authorized 25,000,000 shares; issued 22,503,942 shares	22,504	22,504
Contributed capital (Note 5)		
Lower Churchill Development	15,400	15,400
Muskrat Falls Project	2,165	2,165
Gull Island Project	100,000	100,000
Retained earnings	168,860	117,953
	308,929	258,022
	$2,106,049	1,962,456

See accompanying notes

On behalf of the Board

Janet Gardiner
Janet C. Gardiner
Director

Edward M. Hearn
Edward M. Hearn
Director

Newfoundland and Labrador Hydro
Consolidated Statements
(in thousands of dollars)

Income

	For the year ended December 31	
	1984	1983
Revenue		
Energy sales	$268,940	236,107
Rentals and royalties	8,534	4,899
Other	1,664	1,791
	279,138	242,797
Expenses		
Operations and administration	50,840	43,316
Fuels	49,365	31,678
Power purchased	1,941	3,979
Depreciation	22,299	22,224
Interest (Note 11)	116,978	115,427
	241,423	216,624
Net income from operations	37,715	26,173
Unusual item		
Sale of power adjustment (Note 10(b))	35,276	—
Net income before minority interest	72,991	26,173
Minority interest	22,084	9,726
Net income for the year	$ 50,907	16,447

Retained Earnings

	For the year ended December 31	
	1984	1983
Balance at beginning of year	$117,953	101,506
Net income for the year	50,907	16,447
Balance at end of year	$168,860	117,953

Changes in Financial Position

	For the year ended December 31	
	1984	1983
Funds provided		
From operations		
Net income	$ 37,715	26,173
Add (deduct) items not requiring working capital		
Depreciation	22,299	22,224
Water equalization	7,930	7,647
Other amortization	2,471	1,887
Amortization of deferred exchange loss	409	—
Other	(328)	(754)
Funds provided by operations	70,496	57,177
Sale of power adjustment	35,276	—
Proceeds of long-term debt	72,934	50,000
Dividends received from Twin Falls Power Corporation	798	800
Miscellaneous	2,115	1,455
Total funds provided	181,619	109,432
Funds applied		
Additions to fixed assets	103,363	148,572
Reduction in long-term debt	38,911	47,820
Dividends paid by a subsidiary to a minority interest	7,787	6,619
Increase in long-term receivable	29,397	—
Increase in deferred charges	2,843	2,626
Contributed capital Muskrat Falls	—	651
Reduction in water equalization	794	—
Total funds applied	183,095	206,288
Decrease in working capital	(1,476)	(96,856)
Working capital (deficiency) as at beginning of year	(34,689)	62,167
Working capital (deficiency) as at end of year	$(36,165)	(34,689)

See accompanying notes

Newfoundland and Labrador Hydro
Notes to Consolidated Financial Statements
December 31, 1984

Newfoundland and Labrador Hydro ("Hydro") is incorporated under a special act of the Legislature of the Province of Newfoundland (the "Province") as a Crown corporation and its principal activity is the development, generation and sale of electric power. Hydro and its subsidiary companies are exempt from paying income taxes under Section 149(1)(d) of the Income Tax Act.

1. **Summary of Significant Accounting Policies**

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles as established in Canada.

Rates and regulations (excluding sales by subsidiaries)

The rates charged by Hydro, excluding sales by subsidiaries, are governed by the Electrical Power Control Act (the "Act"). Under the Act, Hydro is required to charge rates to all its customers designed "to recover the cost of service provided by it and a margin of profit sufficient to achieve and maintain a sound financial position so it is able to achieve and maintain a sound credit rating in the financial markets of the world". There are presently four long-term contracts with industrial customers which were entered into prior to the coming into being of the Act and which do not allow Hydro to recover costs plus a margin of profit and therefore require payments from the Province to Hydro in order to ensure that Hydro meets the requirements of the Act. These payments were $17,800,000 for year ended December 31, 1984 (1983 $16,800,000).

Rates proposed for utility customers from which approximately 67.7% of Hydro's revenue is derived (1983 64.6%) are subject to public hearings, following which the Board of Commissioners of Public Utilities (the "PUB") recommends rates to the Province. If the Province does not change the rates recommended by the PUB within 15 days, the recommended rates become effective. Should the Province approve rates which are lower than those recommended by the PUB, the Act requires the Province to enter into financial and other arrangements as may be necessary to enable Hydro to confirm to the policy quoted above. The Province has accepted all rate recommendations of the PUB to date. Rates to industrial customers, compatible with the Act, are set by the Board of Directors of Hydro. The PUB has determined that Hydro's net income from operations should provide coverage of from 1.15 times to 1.25 times its gross interest cost in order to achieve the profit margin required by the Act. The coverage from operations in 1984 was 1.19 (1983 1.16).

Principles of consolidation

The consolidated balance sheet includes the accounts of Hydro and those of its subsidiary companies, Churchill Falls (Labrador) Corporation Limited ("CF(L)Co"), (65.8% owned), Gull Island Power Company Limited ("GIPCo"), (100% owned) and Lower Churchill Development Corporation Limited ("LCDC"), (51% owned).

CF(L)Co is incorporated under the laws of Canada and has completed and commissioned a hydroelectric generating plant and related transmission facilities situated in Labrador and having a rated capacity of 5,225,000 kilowatts ("kW") (the "CF(L)Co Project").

The excess of cost of the investment in CF(L)Co ($77,148,000) over the equity in the book value of the net assets acquired is assigned to property, plant and equipment and is being written off on a straight-line basis at the rate of 1½% per annum. As at December 31, 1984 $11,571,000 (1983 $10,414,000) had been written off.

Under the terms and conditions of the Churchill Falls (Labrador) Corporation (Lease) Act, 1961, (the "Lease"), CF(L)Co must pay rentals and royalties to the Province annually. These rentals and royalties have been assigned to Hydro.

A portion of Hydro's shareholding in CF(L)Co is deposited in a voting trust pursuant to an agreement with Hydro-Quebec.

GIPCo is incorporated under the laws of Canada and was established with the objective of developing the hydroelectric potential at Gull Island on the Lower Churchill River in Labrador, and of constructing a direct current transmission system from Labrador to the island of Newfoundland (the "Gull Island Project"), (see Note 5).

LCDC is incorporated under the laws of Newfoundland and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River (the "Lower Churchill Development"), (see Note 5).

CF(L)Co owns voting control (66⅔%) of Twin Falls Power Corporation Limited ("TWINCO"), but only a 33⅓% equity interest, and as the principal assets and credit resources of TWINCO cannot be transferred to CF(L)Co, consolidation is not considered appropriate and the investment is carried on an equity basis.

Fixed assets and depreciation

Expenditures for additions, improvements and renewals are capitalized and normal expenditures for maintenance and repairs are charged to operations.

Hydro, GIPCo and LCDC

Plant under construction includes the costs incurred in preliminary feasibility studies, engineering and construction of new generation, transmission and distribution facilities. Interest is charged to plant under construction at rates equivalent to the weighted average cost of the most recent funds borrowed. The average rate for the year ended December 31, 1984 was 13½% (1983 14⅓%).

Depreciation is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Depreciation on other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting grants in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation	
Hydroelectric	50, 75 and 100 years
Thermal electric	25 and 30 years
Diesel electric	20 years
Transmission	
Lines	40 and 50 years
Switching stations	40 years
Distribution System	30 years

CF(L)Co

Depreciation is provided for at a rate of 1½% per annum on a straight-line basis.

Deferred charges

Debt discount and financing expenses

These costs are, in general, amortized on a straight-line basis over the lives of the respective debt issues.

Deferred foreign exchange loss

CF(L)Co's unrealized foreign exchange losses, net of accumulated charges to income, are amortized over the remaining life of the related long-term debt.

Deferral of major repairs

Subject to PUB approval, major repairs of an extraordinary and non-recurring nature are amortized to income over periods ranging from five to ten years commencing in the year in which they are incurred. The PUB has accepted the inclusion of these charges in determining Hydro's regulated rates.

Feasibility studies and other

These costs are amortized on a straight-line basis over a five year period.

Provision for water equalization

In order to equalize the effect on thermal generation cost due to fluctuations in water availability, Hydro charges or credits fuel expense in the income statement annually with an amount calculated to adjust generation costs to an average annual water condition. The calculation is based on historical water flow data compiled over a period of 35 years. The offsetting debit or credit is included in the water equalization provision account. This practice has been accepted by the PUB in determining Hydro's regulated rates.

Hydro, with PUB concurrence, has concluded that the provision should have an upper limit of $36,000,000, and that this amount would be sufficient to absorb the adverse effects of a reoccurrence of the three consecutive driest years ever recorded. The provision will continue to be calculated monthly and, if the calculated provision at year-end is greater than $36,000,000, the excess will be refunded to Hydro's customers in January of the succeeding year.

Foreign currencies

CF(L)Co changed its accounting policy with respect to foreign currency translation prospectively from January 1, 1984 to conform with the recommendations of the Canadian Institute of Chartered Accountants. The effect of adopting this change did not significantly affect net earnings.

Foreign currency transactions are translated into their Canadian dollar equivalent substantially in accordance with the temporal method as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At each balance sheet date monetary assets and liabilities are translated using exchange rates at that date except for long-term debt and its related current portions which are accounted for as follows:

(i) In the case of Hydro, long-term debt, including any current portion, is translated at exchange rates prevailing when the debt was incurred, in accordance with rate making practices. In 1983 the PUB recommended that should Hydro's earnings in any year be insufficient to yield Hydro's minimum profit margin and also meet a realized foreign exchange loss the PUB, on a rate referral from Hydro, will recommend that the deficiency be amortized over a reasonable period of time. Therefore, no recognition is given in the accounts to unrealized gains or losses.

(ii) Under the provisions of the contract between CF(L)Co and Hydro-Quebec (the "Power Contract") CF(L)Co's exposure for foreign exchange losses is limited. CF(L)Co recovers a portion of the difference between actual exchange rates prevailing at the settlement date of its First Mortgage Bonds and a Weighted Average Exchange Rate as defined in the Power Contract.

The unrealized foreign exchange loss not recoverable under the Power Contract has been deferred and is being amortized to operations over the remaining life of the debt.

(c) Gains or losses arising in the translation or conversion of foreign currencies are included with interest in the statement of income.

2. Fixed Assets

	1984 (000)	1983 (000)
Hydro		
Property, plant and equipment, at cost	$ 826,055	817,331
Less grants in aid of construction	71,149	70,071
	754,906	747,260
Less accumulated depreciation	63,678	54,980
	691,228	692,280
Plant under construction	272,517	180,556
	963,745	872,836
GIPCo		
Gull Island Project, at cost (Note 5)	98,665	99,314
CF(L)Co (a)		
Property, plant and equipment, at cost	961,012	961,660
Less accumulated depreciation	154,726	142,482
	806,286	819,178
LCDC		
Capital studies (Note 5)	24,164	23,058
	$1,892,860	1,814,386

(a) CF(L)Co assets are pledged as security for its long-term debt.

3. Long-Term Receivables

	1984 (000)	1983 (000)
Hydro (a)	$7 843	7,843
CF(L)Co (b)	29,397	—
	$37,240	7,843

(a) This receivable is collectible from the Province, without interest, in each year, to the extent that the current year-end balance of the "Provision for water equalization" (see Note 1) falls below the current year-end balance of the long-term receivable.

(b) This receivable relates to the additional revenue referred to in Note 10(b) plus interest. Payments of the amount related to the initial review period will be received in monthly instalments over an eight year period which commenced September 1, 1984. The receivable bears interest at 7% per annum from September 1, 1984, which interest is payable concurrently with each instalment.

4. Investment in Twin Falls Power Corporation Limited

	1984 (000)	1983 (000)
Shares, at cost	$ 2,500	2,500
Equity in retained earnings at beginning of year	398	359
Equity in net income for the year	803	839
Dividends for the year	(798)	(800)
	$ 2,903	2,898

5. Lower Churchill Development

LCDC was incorporated in 1978 pursuant to the provisions of an agreement (the "Principal Agreement"), between the Province and the Government of Canada. The Province and the Government of Canada own equity interests of 51% and 49% of LCDC, respectively. The Principal Agreement provides that future issues of Class A common shares shall preserve, as nearly as possible, this ratio of beneficial ownership. Hydro is the designate for the Province's shareholding in LCDC.

Upon agreement to continue with the Lower Churchill Development, GIPCo's assets and the hydroelectric development rights to the Lower Churchill River, (the "Water Rights"), will be acquired by LCDC pursuant to the provisions of an agreement between LCDC and the Province, (the "Option Agreement"), dated November 24, 1978, and expiring November 24, 1985. The Option Agreement stipulates that the purchase price in respect of GIPCo's assets will be a maximum of $100,000,000 less the amount of $5,200,000 representing the value assigned to 520 Class A common shares of LCDC issued pursuant to the signing of the Option Agreement. As consideration for GIPCo's assets, LCDC will issue a 10% Convertible Demand Debenture in the amount of $94,800,000. LCDC will issue 3,000 Class B common shares, without nominal or par value, to the Province in consideration of the Water Rights and the Province will transfer such shares to Hydro. It is not anticipated that there will be any loss upon sale of GIPCo's assets to LCDC.

Hydro has acquired 1,540 Class A common shares of LCDC which have a stated value of $10,000 each. 520 shares were acquired in 1979 pursuant to signing of the Option Agreement and 510 shares were acquired in each of the years 1980 and 1981, by way of capital contributions from the Province.

In 1980, the LCDC Board of Directors issued a report to the shareholders recommending development of the Muskrat Falls site and the transmission of this power to the island of Newfoundland. Engineering studies for the transmission system have been completed but a final commitment to the project awaits the resolution of the Churchill Falls issues (see Note 12(a)).

6. Deferred Charges

	1984 (000)	1983 (000)
Unamortized debt discount	$16,810	16,619
Deferred foreign exchange loss (CF(L)Co)	12,216	—
Major repair costs	1,759	2,220
Feasibility studies and other	1,633	991
	$32,418	19,830

7. Power Distribution District

Hydro administers the Power Distribution District of Newfoundland and Labrador ("PDD"), a statutory corporation of the Province. PDD is responsible for the generation and distribution of electricity to its customers in certain remote rural communities. Hydro finances the capital requirements of PDD, manages PDD's operating responsibilities and is fully reimbursed for all costs associated therewith.

8. Long-Term Debt

	Hydro (000)	CF(L)Co (000)	1984 Total (000)	1983 Total (000)
Summary of long-term debt				
Bonds, notes and debentures	$848,856	540,646	1,389,502	1,341,039
Government of Canada loans	84,798		84,798	86,613
Total long-term debt	$933,654	540,646	1,474,300	1,427,652

At December 31, 1984 it is estimated that required repayments of long-term debt over the next five years will be as follows:

	(000)
1985	$ 28,500
1986	49,500
1987	79,100
1988	107,600
1989	128,700

Details of long-term debt are as follows:

Hydro

Bonds, notes and debentures, redeemable at the option of Hydro at various times and at various rates, none of which exceeds 102¼% of par.

Interest Rate %		Year of Maturity	Foreign Funds (000)	1984 (000)	1983 (000)	
5¼		1990	U.S. $16,320	$17,615	19,644	(a)
7¾		1993	U.S. $25,000	26,773	26,773	(b)
9		1994	U.S. $10,500	11,288	11,772	
9¼		1986	U.S. $20,857	20,535	22,750	
8⅛		1992		15,000	15,000	(b)
8⅞		1999		20,000	20,000	(b)
10¾		1995		25,000	25,000	(b)
5¾		1985	S.Fr. 75,000	28,286	28,286	(c)
10¼		2001		30,000	30,000	(b)
10		2002		30,000	30,000	(b)
10	Series J	2002		35,000	35,000	(b)
10¼	Series K	2001		35,000	35,000	(b)
10	Series L	2003		40,000	40,000	(b)
9⅞		1994	U.S. $50,000	57,797	57,797	
11¼	Series M	1999		110,000	75,000	(b)
13⅜	Series N	2001		75,000	75,000	(b)
17¼		1989	U.S. $75,000	88,876	88,876	
15⅛		1992	U.S. $100,000	124,072	124,072	
15¼	Series Q	1987		50,000	50,000	
11¼	Series R	1988		50,000	50,000	
7		1985	¥7,000,000	37,934	—	(d)
				928,176	859,970	
Less sinking funds				69,259	54,116	
				858,917	805,854	
Less payments due within one year				10,061	9,454	
				$848,856	796,400	

(a) Secured by an assignment of amounts receivable under a power contract.

(b) A sinking fund has been established for this issue.

(c) The interest rate on this loan will be adjusted periodically and the loan may be repaid in full on any interest adjustment date. Although this loan matures in 1985, it has not been included in the payments due within one year as the loan will be extended or repaid from the proceeds of a new long-term debt issue.

(d) No portion of this loan has been included in the payments due within one year because on February 25, 1985 the loan was replaced with a Japanese Yen loan of like amount with an interest rate of 7.6%. Repayment of the new loan commences in 1990.

Government of Canada loans

These loans, in the aggregate amount of $86,613,000 (1983 $88,309,000), including the current portions, bear interest at various rates from 5¼% to 8⅛% and each loan is repayable following the completion date of the related facility, by thirty or forty equal annual instalments including interest. The years of maturity of these loans range between 2003 and 2014, and the current portion as at December 31, 1984 was $1,814,000 (1983 $1,696,000).

Based on exchange rates in effect at December 31, 1984, the approximate amount required to discharge foreign currency debt obligations recorded in the accounts in Canadian dollars as $413,176,000 would be $468,304,000 (1983, as $392,860,000 would be $435,137,000).

CF(L)Co

	1984 ($000)	1983 ($000)
First Mortgage Bonds		
7¼% Series A due December 15, 2007 (U.S. $403,512,000)	$426,443	428,527
7⅛% Series B due December 15, 2007	40,428	41,809
General Mortgage Bonds		
7½% due three years after latest maturity of any First Mortgage Bonds	90,393	92,237
	557,264	562,573
Less payments due within one year	16,618	17,934
	$540,646	544,639

The First Mortgage Bonds, Series A and B, are repayable in fixed semi-annual and in contingent annual sinking fund instalments which commenced in June 1978.

The Deed of Trust and Mortgage securing the General Mortgage bonds provides for semi-annual sinking fund payments which commenced in June 1980. Each payment will be an amount equal to 1% of the aggregate principal amount outstanding on January 1, preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

9. Guarantees by the Province

The Province has unconditionally guaranteed the principal and interest on Hydro's promissory notes and long-term debt, except for the Swiss franc loan and the debt of CF(L)Co.

10. Sales of Power, CF(L)Co

(a) The Power Contract provides for the sale of substantially all of the energy from the CF(L)Co Project for an initial period of 40 years, until 2016, with an automatic option of renewal for a further period of 25 years. Sales of power under the Power Contract have been recorded at mill rates based on a determination by an independent auditor that the Final Capital Cost of the Project is $887,575,000. Hydro-Quebec and CF(L)Co implemented an increase in rates during 1981 without prejudice to the right of either party in further negotiations or in a judicial review of the Final Capital Cost pursuant to the provisions of the Power Contract. CF(L)Co instituted proceedings in November, 1984, in the Quebec Superior Court claiming that the Final Capital Cost is in excess of $900,000,000, the maximum to be used as a basis for the mill rate. Hydro-Quebec filed a preliminary motion concerning whether CF(L)Co could institute the action which motion was heard January 21, 1985. On February 11, 1985 the court upheld the preliminary motion and stated that it lacked jurisdiction over the subject matter of the action as drafted by CF(L)Co. CF(L)Co is reviewing whether it will appeal this judgement.

(b) The terms Energy Payable and Annual Energy Base are defined in the Power Contract. Section 8.5.2 of the Power Contract provides for an initial eight year review and subsequent four year reviews of the annual average Energy Payable for comparison with the Annual Energy Base then in effect. When the annual average Energy Payable exceeds the Annual Energy Base in effect an additional payment is due from Hydro-Quebec, the amount being calculated in accordance with Article VIII of the Power Contract. Conversely, if a shortfall should occur, a refund would be due from CF(L)Co to Hydro-Quebec. Article IX of the Power Contract provides for adjustment to the Annual Energy Base where applicable in the same time intervals.

Energy delivered to Hydro-Quebec during the period September 1, 1976 to August 31, 1984 was reviewed in September 1984 to determine the annual average Energy Payable for comparison with the Annual Energy Base in effect during the period. The annual average Energy Payable during the initial period was determined to be in excess of the Annual Energy Base, thereby resulting in an adjustment of $35,276,000 which includes interest.

The Annual Energy Base was also reviewed pursuant to Article IX and was increased from 31.5 billion kilowatthours (kW.h) (Hydro-Quebec 30.74 billion kW.h) per annum to 32.2 billion kW.h (Hydro-Quebec 31.44 billion kW.h) per annum, the maximum permissible under the Power Contract.

11. Interest Expense

	1984 ($000)	1983 ($000)
Gross interest		
Interest on long-term debt	$171,555	162,992
Interest on promissory notes	7,100	987
	178,655	163,979
Amortization of debt discount and financing expense	1,611	1,549
Exchange loss on sinking fund transactions and retirement of debt	5,249	3,721
	185,515	169,249
Less:		
Recovered from		
Hydro-Quebec (a)	23,541	20,823
PDD	3,730	3,113
Interest during construction	27,092	16,457
Interest earned	14,174	13,429
Net interest expense	$116,978	115,427

(a) Under the terms of the Power Contract, CF(L)Co recovers the difference between interest calculated at the rates prescribed in the Power Contract and interest paid on its long-term debt.

Also, CF(L)Co can require Hydro-Quebec to make additional cash advances to service its debt and to cover its expenses if funds are not otherwise available. In exchange CF(L)Co

will issue units of Subordinate Debentures and shares of common stock.

12. Commitments and Contingent Liabilities

(a) (i) CF(L)Co (together with Hydro-Quebec and the trustees for CF(L)Co's bondholders), is defending a legal action which began in 1976 and concerns a request made by the Province to CF(L)Co, pursuant to Clause 2(e) of Part 1 of the Lease, for the supply by CF(L)Co of 800,000 kW of power commencing in 1983. The trial of this action concluded July 8, 1982 and judgement was delivered in June 1983 denying the Province's request. This judgement was appealed to the Newfoundland Supreme Court, Court of Appeal which heard the appeal on October 15-18, 1984. At the conclusion of the hearing judgement was reserved.

(ii) In 1980 the Province enacted The Upper Churchill Water Rights Reversion Act (the "Legislation"). The Province referred the Legislation to the Newfoundland Supreme Court, Court of Appeal for an opinion on its constitutional validity. The opinion rendered was that the Legislation is constitutionally valid. This opinion was appealed to the Supreme Court of Canada who, on May 3, 1984 rendered its unanimous opinion that the Legislation is ultra vires, that is, beyond the power of the Province to enact.

Hydro, the Province and CF(L)Co have intervened in requests to the National Energy Board ("NEB") by Hydro-Quebec to export power and energy to the North Eastern United States, the New England States and Vermont on the grounds that the export was not surplus to reasonably foreseeable Canadian needs as required by the NEB Act. The NEB has decided in favor of Hydro-Quebec for the North Eastern and the New England cases and has reserved its decision in the Vermont case.

(iii) In June 1977, Hydro-Quebec commenced an action against CF(L)Co and the Province in the Superior Court in Montreal to obtain a declaration as to certain rights and obligations of the parties under the Power Contract. This action was dismissed on preliminary points of law in August 1977. The Court of Appeal of Quebec reversed the decision of the lower court and this decision was appealed by CF(L)Co and the Province to the Supreme Court of Canada. The Supreme Court of Canada decided that Hydro-Quebec could proceed against CF(L)Co, but not against the Province. Hydro-Quebec filed an amended motion seeking a declaration as to its rights under the Power Contract should CF(L)Co comply with the Province's request referred to in Note 12(a)(i). This matter was heard in the Superior Court in Montreal in March 1983 and on August 4, 1983 judgement was rendered. The court declared that compliance by CF(L)Co would be a default under the Power Contract. This judgement has been appealed by CF(L)Co and was heard by the Quebec Court of Appeal on December 12, 1984. On February 18, 1985 the court rendered its judgement dismissing the appeal. CF(L)Co is reviewing this decision to determine whether it will seek leave from the Supreme Court of Canada to appeal.

(b) Under the terms of a sublease with TWINCo, CF(L)Co is required to deliver to TWINCo, at an agreed price, horsepower equivalent to the installed horsepower of the TWINCo plant and to maintain in good working order TWINCo's plant and equipment. The sublease expires on December 31, 1989 and has a 20 year renewal option subject to certain conditions.

(c) Proceedings have been instituted by CF(L)Co against contractors for damages resulting from the reduction in revenue due to premature failure of certain generating units. Settlement of this matter is currently under negotiation.

(d) Hydro has received claims instituted by various companies with respect to construction costs, outages and plant shutdowns. The aggregate of these claims, less any amounts that have been provided for in Hydro's financial statements is $16,000,000 (1983 - $4,900,000). The final resolution of these matters is currently under negotiation.

(e) Hydro's employees are covered by the Province's Public Service Pension Plan to which contributions are made equally by Hydro and its employees. CF(L)Co has two private pension plans, one for its salaried and one for its hourly paid employees and in addition a number of salaried employees are covered by the Public Service Pension Plan. Both CF(L)Co plans are fully funded and managed by a trustee. Based on the most recent actuarial valuation each CF(L)Co plan is in a surplus position.

(f) Hydro's outstanding contractual commitments for capital projects total approximately $15,229,000 at December 31, 1984 (1983 - $72,500,000). The total cost to date of the Cat Arm Development is $276,449,000 and is to be completed in 1985 at an estimated total capital cost of $316,000,000.

13. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

AUDITORS' REPORT

The Lieutenant-Governor in Council
Province of Newfoundland

We have examined the consolidated balance sheet of Newfoundland and Labrador Hydro as at December 31, 1984 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick Mitchell & Co.
Chartered Accountants

St. John's, Newfoundland
Canada
March 1, 1985

OPERATING STATISTICS

Years Ended December 31

	1984	1983	1982	1981	1980	1979	1978	1977
Installed generating capacity at end of period (rated kW in thousands)								
CF(L)Co	5,225	5,225	5,225	5,225	5,225	5,225	5,225	5,225
TwinCo	225	225	225	225	225	225	225	225
Hydro - Hydroelectric	764	764	680	680	680	605	605	605
- Thermal	637	* 637	638	636	634	630	464	462
Total	6,851	6,851	6,768	6,766	6,764	6,685	6,519	6,517
Electric energy generated, net of station services (kW.h in millions)								
CF(L)Co	38,910	33,819	38,242	38,958	40,680	38,246	39,496	36,190
Hydro - Hydroelectric	4,086	3,912	3,134	3,387	2,403	2,355	2,804	2,917
- Thermal	757	575	1,121	414	1,350	1,148	797	366
Total Available for Sale	42,753	38,306	42,497	42,759	44,433	41,749	43,097	39,473
Electric energy sales (kW.h in millions)								
CF(L)Co - Export	35,989	31,188	35,715	35,881	37,759	35,221	36,947	33,274
Hydro - Utility	3,246	3,033	2,992	2,724	2,751	2,629	2,549	2,255
- Industrial	1,856	1,783	1,628	1,424	1,340	1,240	1,299	1,433
Total	41,091	36,004	40,335	40,029	41,850	39,090	40,795	36,962
Average sales revenue (cents per kW.h)								
CF(L)Co - Export	0.29	0.29	0.26	0.27	0.26	0.27	0.26	0.28
Hydro - Utility	3.63	3.12	2.98	2.42	2.22	2.03	1.75	1.39
- Industrial	3.02	2.89	2.60	2.22	2.05	1.94	1.84	1.05
All Classifications Combined	0.68	0.66	0.56	0.49	0.44	0.44	0.41	0.38
Transmission lines (kilometres)								
CF(L)Co - 735 kV	608	608	608	608	608	608	608	608
- 230 kV	431	431	431	431	431	431	431	431
Hydro - 230 kV	1,408	1,408	1,353	1,275	1,191	1,191	1,191	1,191
- 138 kV	974	974	916	845	845	830	830	830
- 69 kV	591	591	565	552	428	340	304	299
Total	4,012	4,012	3,873	3,711	3,503	3,400	3,364	3,359
Peak demand (kW in thousands)								
CF(L)Co System	5,530	5,562	5,685	5,680	5,669	5,629	5,636	5,658
Hydro System	1,013	1,040	881	834	836	821	769	679

* Decrease in thermal capacity is result of shutdown of diesel generating plants in accordance with Hydro's ongoing interconnect program.

FINANCIAL STATISTICS

(in millions of dollars)
Years Ended December 31

	1984	1983	1982	1981	1980	1979	1978	1977
Operating Results:								
Revenue								
Energy sales	$ 268.9	236.1	225.0	195.6	185.7	172.1	165.9	140.2
Rentals and royalties	8.5	4.9	5.3	5.9	6.1	5.5	5.8	5.2
Other	*37.0	1.8	2.3	1.8	2.0	2.2	2.0	1.9
	314.4	242.8	232.6	203.3	193.8	179.8	173.7	147.3
Expenses								
Operations and administration	52.7	47.4	48.1	40.4	36.3	32.3	32.8	32.4
Fuels	49.4	31.7	40.2	17.5	21.7	28.3	20.9	10.5
Depreciation	22.3	22.2	22.4	22.1	21.1	18.5	18.2	17.8
Interest	117.0	115.4	91.2	91.7	85.3	81.0	80.2	70.4
	241.4	216.7	201.9	171.7	164.4	160.1	152.1	131.1
Net income before minority interest	73.0	26.1	30.7	31.6	29.4	19.7	21.6	16.2
Minority interest	22.1	9.7	10.6	13.0	12.4	11.0	12.0	10.7
Net income	$ 50.9	16.4	20.1	18.6	17.0	8.7	9.6	5.5
Contributions to Net Income								
Hydro Corporate	$ 19.7	14.3	16.5	10.8	8.4	2.2	1.3	3.0
CF(L)Co	$ 31.2	2.1	3.6	7.8	8.6	6.5	8.3	2.5
Financial Position:								
Total current assets	$ 135.4	112.3	183.4	144.3	95.2	111.2	74.2	78.9
Total current liabilities	171.6	147.0	121.2	108.2	125.8	88.7	85.2	105.7
Net working capital	(36.2)	(34.7)	62.2	36.1	(30.6)	22.5	(11.0)	(26.8)
Property, plant and equipment	2,111.3	2,011.9	1,864.1	1,712.4	1,599.4	1,519.7	1,430.1	1,360.1
Accumulated depreciation	218.4	197.5	174.8	152.4	130.6	112.7	95.0	75.3
Property, plant and equipment, net	1,892.9	1,814.4	1,689.3	1,560.0	1,468.8	1,407.0	1,335.1	1,284.8
Other assets	77.7	35.8	35.2	34.1	32.6	35.1	26.9	22.8
Long-term debt	1,474.3	1,427.7	1,425.5	1,296.8	1,177.9	1,298.8	1,205.9	1,149.7
Other liabilities	151.2	129.8	119.0	111.1	97.0	89.3	85.1	83.8
Shareholder's equity	$ 308.9	258.0	242.2	222.3	195.9	76.5	60.0	47.3
Employees at year-end:								
Permanent	1,197	1,213	1,232	1,205	1,204	1,194	1,259	1,302
Temporary	107	93	95	126	157	152	69	95
Total	1,304	1,306	1,327	1,331	1,361	1,346	1,328	1,397

* Includes unusual item relating to a sale of power adjustment of $35.3.

BOARDS OF DIRECTORS AND OFFICERS — 1984**

DIRECTORS

NEWFOUNDLAND AND LABRADOR HYDRO

Victor L. Young, Chairman
†Fintan J. Aylward, Q.C.
†*Angus A. Bruneau
*Lawrence D. Fahey
†*Janet C. Gardiner
*Edward M. Hearn
*Roland T. Martin
†Moses O. Morgan
†David A. Vardy

CHURCHILL FALLS (LABRADOR) CORPORATION

Victor L. Young, Chairman
*Guy Coulombe
*Joseph Bourbeau
*James J. Greene, Q.C.
Brian C. McGrath
*David W. Mercer
*Michael J. Monaghan, Q.C.
*Wallace S. Read

*Member Audit Committee
†Member Executive Compensation Committee

LOWER CHURCHILL DEVELOPMENT CORPORATION

†Victor L. Young, Chairman
†A. Reiner Hollbach, Vice-Chairman
Angus A. Bruneau
Alexander J. MacIntosh, Q.C.
Harold F. Marshall
H. Harley McGee
†David W. Mercer
†David G. Norris
†Wallace S. Read
†A. Sidney Rubinoff
David A. Vardy

†Member Executive Committee

**Victor L. Young resigned as Chairman and Chief Executive Officer on November 15, 1984. Effective January 15, 1985 Cyril J. Abery was appointed President and Chief Executive Officer.
**David G. Norris resigned November 30, 1984.
**A. Sidney Rubinoff resigned September 30, 1984.

OFFICERS

NEWFOUNDLAND AND LABRADOR HYDRO

Victor L. Young, Chairman
and Chief Executive Officer
Wallace S. Read,
Executive Vice-President
Leo J. Cole, Vice-President,
Engineering and Construction
John P. Henderson, Vice-President,
Operations
Brian C. McGrath, Vice President
David W. Mercer, Vice-President,
Corporate Planning
Sidney W. Butler, Corporate Secretary
Frank A. Wright, Assistant Corporate Secretary
Robert D.C. Taylor, Treasurer
Derek W. Osmond, Controller

CHURCHILL FALLS (LABRADOR) CORPORATION

Victor L. Young, Chairman and
Chief Executive Officer
Brian C. McGrath, President
T. David Collett, Vice-President,
Operations and Engineering
R. Andrew Grant, Vice-President,
Finance and Chief Financial Officer
Sidney W. Butler, Corporate Secretary
Frank A. Wright, Assistant Corporate
Secretary
George N. Gray, Treasurer
Axel J. Sorensen, Controller

LOWER CHURCHILL DEVELOPMENT CORPORATION

Victor L. Young, Chairman
A. Reiner Hollbach, Vice-Chairman
Wallace S. Read, President
and Chief Executive Officer
Sidney W. Butler, Corporate Secretary

POWER DISTRIBUTION DISTRICT OF NEWFOUNDLAND AND LABRADOR

Victor L. Young, Chairman
John P. Henderson, Vice-Chairman
Leo J. Cole
Garland W. Jennings
David W. Mercer
Sidney W. Butler, Secretary
Frank A. Wright, Assistant Secretary

HYDRO SYSTEMS MAP UNDER FOLD.

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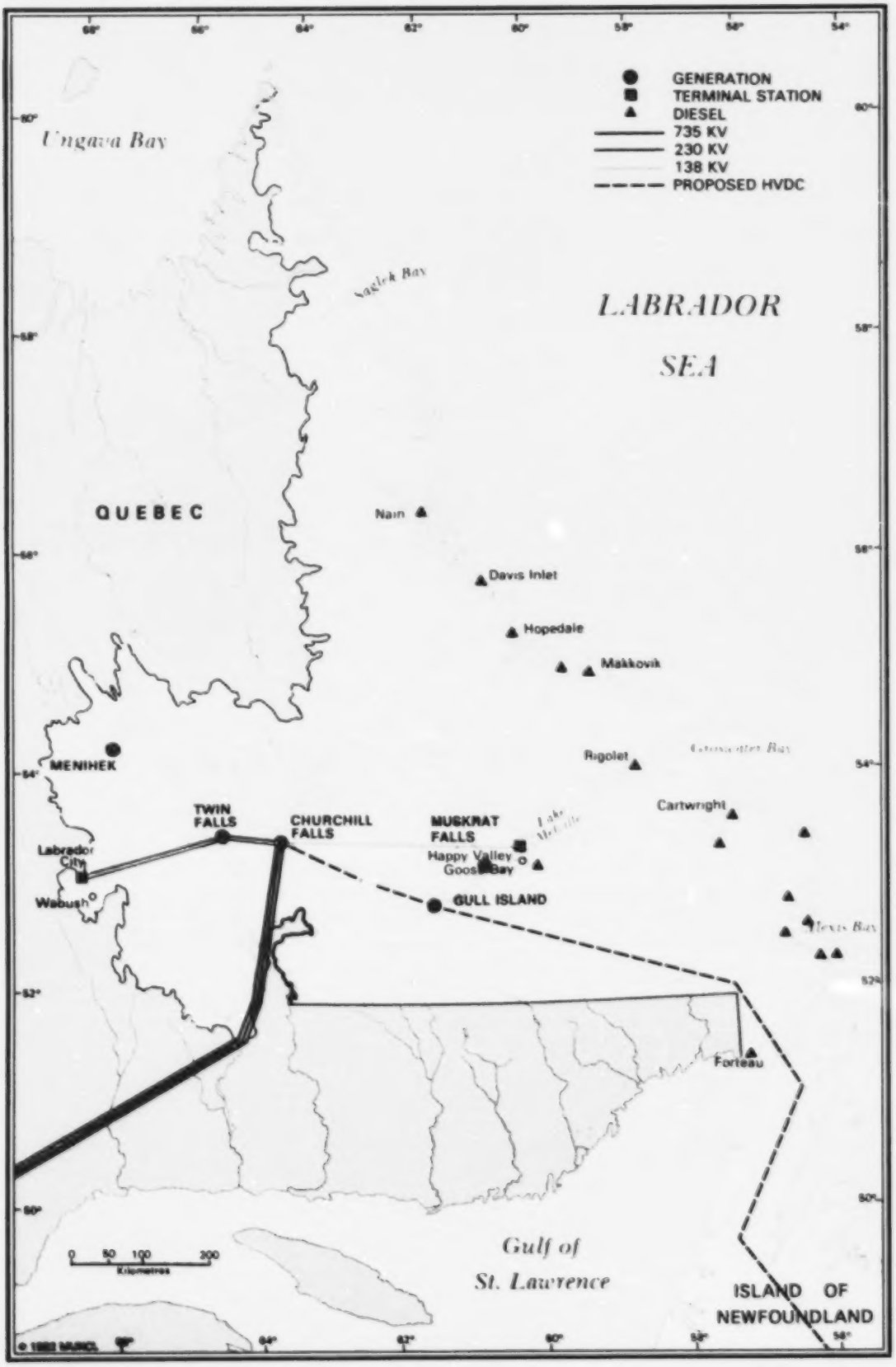
GENERATION
TERMINAL STATION
DIESEL
735 KV
230 KV
138 KV
PROPOSED HVDC
Ungava Bay
LABRADOR
SEA
QUEBEC
Nain
Davis Inlet
Hopedale
Makkovik
Rigolet
MENIHEK
TWIN
FALLS
CHURCHILL
FALLS
MUSKRAT
FALLS
Happy Valley
Goose Bay
Labrador
City
Wabush
GULL ISLAND
Cartwright
Forteau
Gulf of
St. Lawrence
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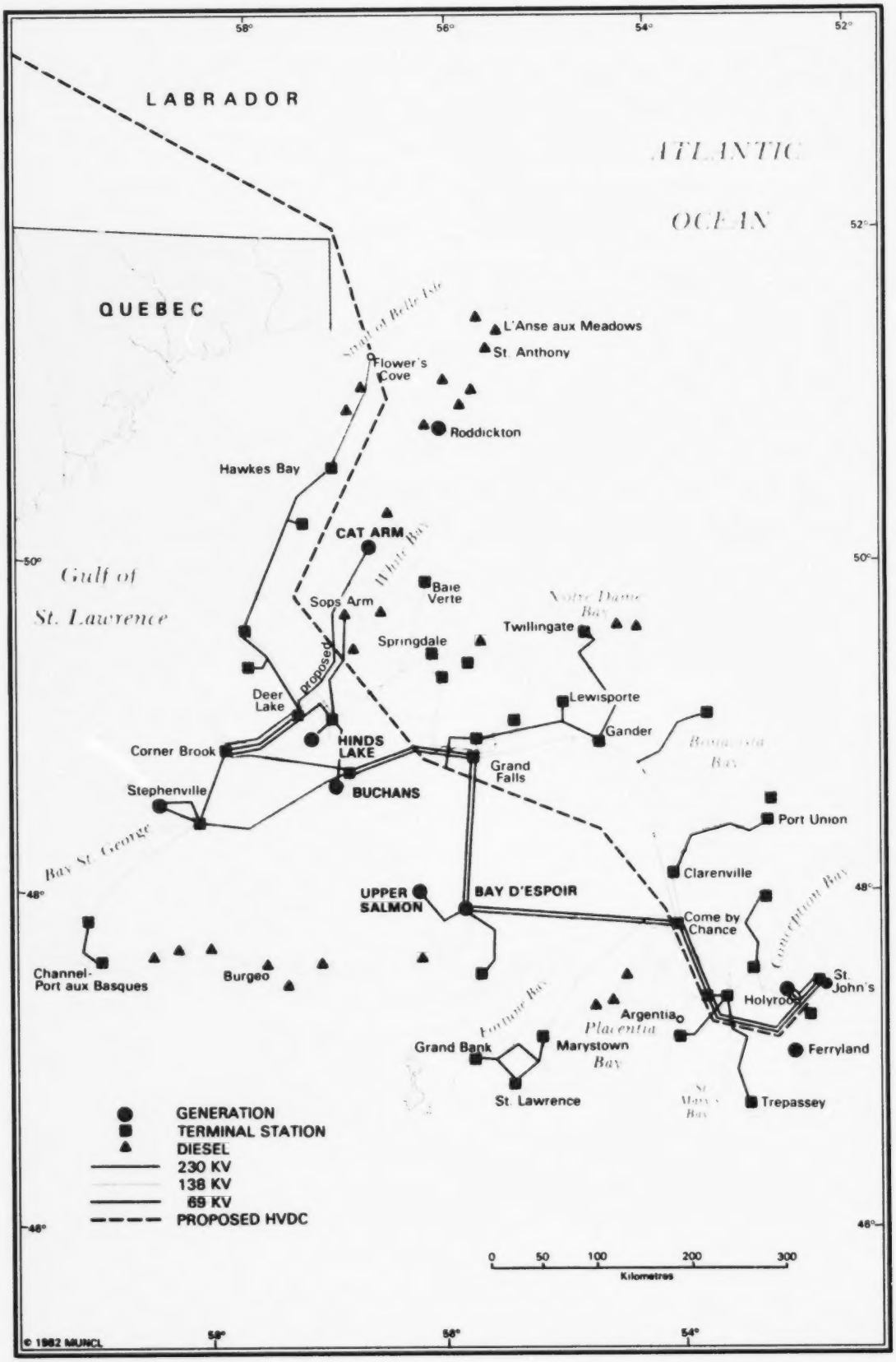
LABRADOR
ATLANTIC
OCEAN
QUEBEC
Strait of Belle Isle
L'Anse aux Meadows
St. Anthony
Flower's Cove
Roddickton
Hawkes Bay
CAT ARM
White Bay
Gulf of
St. Lawrence
Sops Arm
Baie Verte
Notre Dame Bay
Twillingate
Springdale
Proposed
Deer Lake
Lewisporte
Gander
Bonavista Bay
Corner Brook
HINDS LAKE
Grand Falls
Stephenville
BUCHANS
Port Union
Bay St. George
Clarenville
UPPER SALMON
BAY D'ESPOIR
Come by Chance
Conception Bay
Channel-Port aux Basques
Burgeo
St. John's
Holyrood
Argentia
Placentia Bay
Fortune Bay
Grand Bank
Marystown
Ferryland
St. Lawrence
Trepassey
St. Mary's Bay
GENERATION
TERMINAL STATION
DIESEL
230 KV
138 KV
69 KV
PROPOSED HVDC
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Kilometres
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